



DEPARTMENT OF DEFENSE

Department of the Navy

Superior Supplier Incentive Program

AGENCY: Department of the Navy, DoD.

ACTION: Notice of proposed policy letter.

SUMMARY: The Deputy Assistant Secretary of the Navy, Acquisition and Procurement (DASN (AP)), is soliciting comments that the Department of the Navy (DoN) may use in drafting a policy that will establish a Superior Supplier Incentive Program (SSIP). Under the SSIP, contractors that have demonstrated exemplary performance at the business unit level in the areas of cost, schedule, performance, quality, and business relations would be granted Superior Supplier Status (SSS). Contractors that achieve SSS could receive more favorable contract terms and conditions in DoN contracts. In addition to recognition of SSS at the

business unit level, multi-business unit corporations, that have several business units which attain SSS, may receive additional recognition by the DoN at the corporate level. This additional corporate recognition will not result in the receipt of more favorable contract terms and conditions in DoN contracts, but may result in the use of more favorable business practices by the DoN in its relations at the corporate level. Upon approval of the policy by the Assistant Secretary of the Navy for Research, Development and Acquisition, DoN will initiate the pilot phase of the SSIP.

The SSIP pilot is a revision of DoN's previous initiative to recognize superior performance. This initiative was known as the Preferred Supplier Program (PSP). DoN published a previous notice of proposed policy letter on May 14, 2010.

DATES: DoN invites interested parties from both the public and private sectors to provide comments to be considered in the formulation of the final policy letter. In particular, DoN encourages respondents to offer their views as discussed below, in Section C,

"Solicitation of Public Comment." Interested parties should submit comments, in writing, to the address below, on or before May 3, 2013.

ADDRESSES: Comments may be submitted by any of the following methods:

E-mail: SSIP@navy.mil; Facsimile: 703-614-9394; Mail: DASN (AP), Attn: Clarence Belton, 1000 Navy Pentagon, Room BF992, Washington, DC 20350-1000.

Instructions: Please submit comments only and cite "Proposed DoN SSIP Policy Letter" in all correspondence. All comments received will be posted, without change or redaction, to https://acquisition.navy.mil/rda/home/acquisition_one_source/business_opportunities/SSIP, so commenters should not include information that they do not wish to be posted (for example, personal or business-confidential).

FOR FURTHER INFORMATION CONTACT: Clarence Belton, 703-693-4006 or clarence.belton@navy.mil.

SUPPLEMENTARY INFORMATION:

A. Background

Companies in the private sector that have implemented SSIPs have significantly improved performance. Cash flow, contract terms and conditions, and relief from non-statutory compliance requirements, either procedurally or with respect to timing, can reduce contractor costs and risk; and, as such, are powerful incentives that can be used to motivate contractors to perform at a high level. DoN and its contractors negotiate these key components of the business arrangement contract by contract. As a result of this decentralized and individualized approach, DoN fails to take advantage of an extremely important opportunity to motivate industry behavior. This policy would establish the SSIP to leverage that opportunity through the use of favorable contract terms and conditions and other changes in business process that would be available to Superior Suppliers (i.e., suppliers that have demonstrated exemplary performance, at the business unit or corporate level, in the areas of cost,

schedule, performance, quality, and business relations).

The proposed policy has been revised from the original concept of the PSP. DoN is again considering comments to capture the public's views as it revises the concept of operations for SSIP. After consideration of the comments, DoN may publish a draft proposed policy letter for additional public comments.

B. Proposed Policy Letter Concepts

The general outline of the pilot phase of the SSIP, to be established under the proposed policy letter, is set forth below.

Assessment of contractors for designation as Superior Suppliers will be conducted by teams consisting of members from the DoN's Echelon II contracting activities. These contracting activities are identified in Defense Federal Acquisition Regulation Supplement 202.101. Contracting activities may be assigned as evaluation team

leads, based on the volume of contracting activity between a contractor under evaluation and a particular contracting activity. DASN (AP) will oversee the assessment of contractors under the SSIP. DASN (AP) will make recommendations to a panel of senior DoN leaders as to which companies should be designated as Superior Suppliers. The panel will include the Assistant Secretary of the Navy for Research, Development and Acquisition and may include the Vice Chief of Naval Operations; the Assistant Commandant of the Marine Corps; and Commander, Fleet Forces Command; or their representatives.

DoN will use the Contractor Performance Assessment Reporting System (CPARS) as the baseline data during the pilot phase of the SSIP. In the course of the pilot phase, DoN may also identify other sources of data, including information available to DoN program offices and government contract administration organizations that the DoN may use to supplement CPARS data in implementing the SSIP. During the pilot phase, contractors will be assessed in the following CPARS areas:

- Technical (Quality of Product)
- Schedule
- Cost Control
- Management Responsiveness
- Management of Key Personnel
- Utilization of Small Business
- Other CPARS Factors As Appropriate

During the SSIP pilot phase, DoN will use a 5-star rating system based upon the 5-color ratings used in CPARS, as follows:

CPARS Color Rating	Number of Stars
Red	0
Yellow	1
Green	2
Purple	3
Dark Blue	4

DoN will use the CPARS conversion table above, based upon CPARS data; and, as appropriate, may use other sources of information and may weight

evaluation factors. Contractors must achieve at least a 3-Star rating to be designated as a Superior Supplier. A 5-Star rating can only be achieved if the contractor maintains an active Energy Efficiency Program, and otherwise has received a 4-Star rating. Failure to demonstrate an active Energy Efficiency Program will not diminish the contractor's SSIP rating. If a contractor provides documentation sufficient to establish that it has an Energy Efficiency Program, it will receive an additional star, up to a maximum rating of 5 Stars.

For the pilot, DoN intends to evaluate the top 15 DoN contractors that supply goods and the top 15 DoN contractors that supply services. The top 15 DoN contractors will be determined by the value of contract awards for the most recent fiscal year at the business unit level. A business unit can only be rated in either the goods or services category. In the event a contractor is within the top 15 suppliers of both goods and services, it will be evaluated in the category that represents the preponderance of sales to the DoN.

DoN plans to seek policy changes that will allow it to offer more favorable terms and conditions to its preferred suppliers. Once approved, DoN contracting officers will be authorized to offer some or all of the following more favorable contract terms and conditions:

- More favorable progress payments. Adjustments may be made to progress payment percentages or retention percentages.
- Priority for adjudication of final labor and indirect cost rates.
- Increase in the intervals between business system reviews.

C. Solicitation of Public Comment

DoN invites interested parties from both the public and private sectors to provide comments for consideration in the formulation of a policy letter establishing the SSIP. In particular, DoN seeks to better understand how to incentivize contractors,

to achieve sustained superior performance in the areas of cost, schedule, performance, quality, and business relations. Accordingly, DoN welcomes feedback regarding the following questions.

1. What clauses are currently being used in government subcontracts, and commercial contracts and subcontracts, to incentivize superior performance, at the corporate level, in the areas of cost, schedule, performance, quality, and business relations?

2. What solicitation provisions, contract clauses, and performance incentives will provide contractors with the greatest motivation to achieve SSS?

3. What contract terms and conditions increase cost or impair performance and could be removed from contracts with Superior Suppliers without significant risk to the Government?

4. Energy Efficiency is a critical DoN requirement significantly impacting the successful achievement of DoN's missions. How should a contractor's use

of energy as it relates to the entire life-cycle of a product—design, manufacture, use, maintenance, and disposal—be considered in the designation of Superior Suppliers?

5. How long should SSS last?

6. What criteria, other than CPARS data elements, should DoN use to select companies for evaluation as superior suppliers?

7. Is there any other aspect of the proposed SSIP on which you wish to comment?

Dated: April 1, 2013

C. K. CHIAPPETTA
Lieutenant Commander
Office of the Judge Advocate General
U.S. Navy
Federal Register Liaison Officer.

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